VZCZCXRO9943
PP RUEHBC RUEHDE RUEHKUK RUEHTRO
DE RUEHDIR #0478/01 3091406
ZNR UUUUU ZZH
P 051406Z NOV 09
FM RPO DUBAI
TO RUEHC/SECSTATE WASHDC PRIORITY 0607
INFO RUEHAD/AMEMBASSY ABU DHABI PRIORITY 0463
RUEAIIA/CIA WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEIDN/DNI WASHINGTON DC
RUCNIRA/IRAN COLLECTIVE
RHEHAAA/NSC WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC
RHMFISS/USCENTCOM TELECOM CENTER MACDILL AFB FL
RUEHDIR/RPO DUBAI 0608

UNCLAS SECTION 01 OF 02 RPO DUBAI 000478

SIPDIS

E.O. 12958: N/A
TAGS: ECON IR PREL PGOV
SUBJECT: IRAN: MASS RETAILER'S CAUTIOUS ENTRY YIELDING POSITIVE RESULTS

DUBAI 00000478 001.2 OF 002

¶1. (C) SUMMARY: In September the Middle East's sole franchisee for Carrefour, the Majid Al Futtaim Group (MAFG) of Dubai, launched Iran's first hypermarket in a new shopping mall on the outskirts of Tehran. At the request of Carrefour's French corporate headquarters, the outlet was launched under the 'Hyperstar' name but is regarded by local consumers as the same as Carrefour. According to MAFG executives, the outlet's initial revenue and foot traffic place the store in Carrefour's top ten outlets worldwide and underscore the "hunger of the Iranian consumer" as well as a high level of discretionary spending. Distributors say the company's professional business practices and the store's high turnover keep their own costs down and make the location an ideal place to sell. If revenue numbers hold, the company plans to expand to three or four additional outlets in Tehran and one in Shiraz. According to MAFG executives, customers come not only for brand-name foreign imported goods, but surprisingly also for many of their daily local food staples such as bread, produce and meat. If the 'Hyperstar' brand continues to remain free of government criticism or interference, the outlet's continued success could alter urban Iranian consumers' shopping patterns to a more 'Western' one. END SUMMARY.

THE BUZZ ABOUT TOWN

¶2. (C) Since it opened in a new mall next to retail outlets like Adidas and Mango, the country's first hypermarket, Hyperstar (owned and operated by Dubai's MAFG), has drawn large crowds. Its level of success has been fodder for gossip. One businessman told EconOff Hyperstar received close to 60,000 shoppers on its first day; another claimed it does well over a USD 1 million in daily sales. MAFG's CEO, Iyad Malas (strictly protect), told EconOff in a November 4 meeting that the store's success surprised company executives and that the current daily foot traffic falls between 10 to 15 thousand, which puts the store in the top 10 stores for Carrefour worldwide.

¶3. (C) Malas attributed strong sales to three major attributes of the Iranian market: a low-penetration rate of modern shopping malls in Iran, a more-sophisticated consumer who is familiar with and prefers the type of mass retailing associated with Hyperstar/Carrefour, and "a gray market" that hides the real amount of money that Iranians have "in their pocket" for

discretionary spending. In terms of penetration, Malas pointed to the "150,000 people for every one mall" ratio used in the United States to define saturation to emphasize how large the Iranian market is. Presuming 10 percent of Tehran's 13.5 million people can afford to shop at Hyperstar, Malas argued there is room for at least eight additional large shopping centers. With regard to brand familiarity, stronger sales in Tehran, compared to a recently opened Hyperstar in Lahore by MAFG, demonstrate that Iranian customers are already familiar with the brand based on extensive travel to Dubai and Europe and hence prefer a Western way of shopping. Finally, he added that MAFG's experience in emerging markets, where much of the cash-based economy is not captured in official statistics, shows GDP/capita ratio is not an accurate indicator of what consumers can afford to spend. Like Egypt (which has a lower GDP/capita than Iran), he said expects MAFG's hypermarket business in Iran to grow at 30 percent a year.

RELUCTANCE TO MAKE A MAJOR INVESTMENT

¶4. (C) While MAFG is bullish on Hyperstar in Iran, the company is reluctant to make a heavy investment in constructing shopping malls, a sister business. Instead, the company prefers to follow the Carrefour model of renting space for stores and facilitating trade vice buying property and owning the distribution network. MAFG executives do not believe the IRIG is a barrier to doing business in Iran but do cite the high-cost of buying property in Iran and an unclear regulatory framework as reasons why they have not yet moved forward with building malls in Iran.



THE VIEW OF THE DISTRIBUTOR

¶5. (C) Two distributors who sell their products in Tehran's Hyperstar say that the store provides a new model in the Iranian market with less overhead. According to the distributors, Hyperstar's modern marketing options, combined with the concentrated number of customers that Hyperstar draws, give it the ability to trump the need for multiple distribution centers and wholesale dealers. One distributor who represents Panasonic said its Hyperstar showroom was used to launch the first-ever Farsi mobile phone in addition to allowing the company to place the world's largest flat-screen as an anchor to draw customers. A distributor of adhesives manufactured in Iran and distributed under domestic and European labels said Hyperstar lets him give away free samples of his product through the use of "promo girls," something not plausible in other retail outlets in Iran started by the Tehran municipality in the last ten years.

¶6. (C) COMMENT: While Iran's first hypermarket is faring well, the 'Wal-Mart-ization' of the Iranian economy is a long way away. Even though there have been no government impediments to Hypermarket's entrance and consumer demand for mass retail is stronger than expected, MAFG and other retailers are cognizant that foreign investment in Iran remains risky. What is noteworthy is the store's success in selling both local (produce, meat, bread, and other basic staples) as well as imported goods at lower prices. As such, Hyperstar's early success demonstrates that foreign investment in Iran is possible and that many urban Iranians are more oriented to a 'Western' way of shopping. END COMMENT.
EYREA